

Message Text

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PAGE 01 WELLIN 01844 130406Z
ACTION EB-08

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E.O. 11652: N/A
TAGS: EAIR, NZ
SUBJECT: AIR NEW ZEALAND POSTPONING NEW AIRCRAFT PURCHASES

1. AIR NEW ZEALAND RECENTLY ANNOUNCED A DECISION TO DEFER NEW AIRCRAFT PURCHASES FOR ITS OVERSEAS ROUTES FOR AT LEAST ONE YEAR UNTIL THE FUTURE DEMAND FOR SEATS CAN BE MORE ACCURATELY ASSESSED. THE DECISION COINCIDES WITH THE MERGER OF AIR NEW ZEALAND AND THE COUNTRY'S PRINCIPAL DOMESTIC CARRIER, NATIONAL AIRWAYS CORPORATION, A MERGER WHICH IS TO RESULT IN AN ANNUAL DOLLARS 10 MILLION IN SAVINGS. END SUMMARY.

2. A FEW DAYS PRIOR TO ITS MERGER WITH NATIONAL AIRWAYS, AIR NEW ZEALAND (AT THAT TIME EXCLUSIVELY AN INTERNATIONAL CARRIER) ANNOUNCED THAT IT WAS DEFERRING FURTHER AIRCRAFT PURCHASES FOR AT LEAST A YEAR. BEHIND THAT DECISION WERE TWO BASIC COMMERCIAL CONSIDERATIONS - FIRST, A DROP-OFF IN THE GROWTH OF PASSENGER DEMAND ON MANY OF THE COMPANY'S ROUTES, AND, SECOND, FORTHCOMING INCREASES IN SEAT CAPACITY DUE TO INCREASING COMPETITION.

3. FOR SEVERAL YEARS, THE COMPANY HAS BEEN FORECASTING ANNUAL GROWTH OF 10 TO 15 PERCENT IN THE DEMAND FOR
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PAGE 02 WELLIN 01844 130406Z

SEATS ALONG ITS ROUTES. IN THE LAST THREE OR FOUR YEARS, HOWEVER, GROWTH HAS BEEN LIMITED TO 3 TO 4 PERCENT OVERALL, A SHARP RISE IN TRAFFIC TO AND FROM THE UNITED STATES OFFSETTING DECLINES OR LEVELLING OFF ON MOST OTHER ROUTES. CONTINENTAL AIRLINES HAS BEEN AWARDED RIGHTS TO FLY BETWEEN THE U.S. AND NEW ZEALAND, AND CATHAY PACIFIC IS EXPECTED TO INTRODUCE A HONG KONG-NEW ZEALAND SERVICE

SOON, WHICH, IN AIR NEW ZEALAND'S VIEW, WILL LEAD TO EXCESS CAPACITY ON BOTH ROUTES.

4. CITING THESE CONSIDERATIONS, THE COMPANY HAS ANNOUNCED A DEFERRAL OF NEW AIRCRAFT PURCHASES PENDING RE-EVALUATION OF DEMAND GROWTH PROJECTIONS AND ANALYSIS OF THE RESULTS OF INCREASING COMPETITION. EFFORTS TO CONCLUDE A BILATERAL WITH JAPAN, AND AIR NEW ZEALAND'S EXTENSION OF SERVICE TO TOKYO WITH THE OPENING OF NARITA AIRPORT, ARE THE PRINCIPAL EXPANSION TARGETS FOR THE PRESENT.

5. EMBASSY COMMENT: THE AIR NEW ZEALAND DECISION COINCIDES ALMOST TO THE DAY WITH THE COMPANY'S MERGER WITH (SOME SAY ABSORPTION OF) NATIONAL AIRWAYS. THE MERGER WAS EFFECTED ON VERY SHORT NOTICE, AND WITHOUT CAREFUL ADVANCE PREPARATION, AND AS A RESULT THERE IS MUCH SORTING OUT STILL BEING DONE. AMONG PROPOSALS BEING CONSIDERED ARE THE USE OF NAC'S 737S ON THE AUCKLAND-NADI ROUTE TO RELIEVE THE COMPANY'S DC-10S FOR THE JAPAN SERVICE, AND PERHAPS SOME REASSIGNMENT OF DOMESTIC ROUTES PREVIOUSLY HANDLED BY NAC BOEINGS FOR ADDITIONAL OVERSEAS SERVICE. THE ANNOUNCEMENT OF THE MERGER BY THE GOVERNMENT IN MID-DECEMBER INDICATED THAT ANNUAL SAVINGS OF DOLLARS 10 MILLION WOULD RESULT FROM THE UNION; PERHAPS THE NECESSITY OF SATISFYING THAT REQUIREMENT HAS SOMETHING TO DO WITH THE DEFERRAL OF NEW PURCHASES, AS WELL. HEALY
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PAGE 03 WELLIN 01844 130406Z

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